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More is not always better: An economic assessment of the EU's anti-avoidance tax framework

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DISCUSSION PAPER

// REINALD KOCH, CHRISTOPH REHRL,
AND CHRISTOPH SPENGEL

More Is Not Always Better: An Economic Assessment of the EU's Anti-Avoidance Tax Framework

Leibniz Association

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More Is Not Always Better: An Economic Assessment of the EU's Anti-Avoidance Tax Framework

Reinald Koch[1], Christoph Rehrl[2] & Christoph Spengel[3]

Abstract

Over the past decade, the European Union has built a comprehensive supranational framework to combat corporate tax avoidance. This article provides the first integrated assessment of the EU's post-2015 anti-avoidance architecture, combining evidence on profit shifting by European multinationals, the effectiveness and side-effects of individual regulatory instruments, and the cumulative costs of tax complexity. While these measures have reduced specific profit-shifting channels, their marginal revenue impact appears limited relative to the rise in tax complexity, compliance costs, and distortions to investment, risk-taking, and innovation. The uneven global implementation of recent instruments — notably the Global Minimum Tax and public country-by-country reporting — has created a competitive asymmetry in which European multinationals bear regulatory burdens that their non-European competitors largely do not. The article concludes with policy recommendations to recalibrate the framework, eliminating rules whose marginal costs outweigh their marginal benefits while restoring the balance between enforcement and competitiveness that the EU's standard of "fair and efficient taxation" demands.

Keywords: Anti-tax avoidance; profit shifting; ATAD; Global Minimum Tax (Pillar Two); tax policy; corporate tax competitiveness

JEL Classifications: H26, H25, F23, H87, K34

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1 Introduction

Over the past decade, the European Union has built the world's most comprehensive supranational framework against corporate tax avoidance. Whether this framework still satisfies the Union's own objective of "fair and efficient taxation" has become an increasingly important question. This paper argues that answering this question requires evaluating not only the effectiveness of anti-avoidance measures in reducing profit shifting, but also their cumulative effects on tax complexity, compliance costs and corporate competitiveness.

Over the past two decades, the EU has fundamentally reoriented its approach to business taxation. Until 2011, EU tax policy was primarily designed to enhance the competitiveness of the internal market as a location for multinational enterprises. Legislative initiatives focused on eliminating tax obstacles to cross-border economic activity resulting from the coexistence of distinct national corporate tax systems. In particular, reform efforts sought to mitigate juridical and economic double taxation, address the absence of cross-border loss relief, and reduce source-based taxation of intra-EU transactions. This phase culminated in the adoption and consolidation of key harmonization measures — most notably the Parent-Subsidiary Directive, the Interest and Royalties Directive, and the Merger Directive — and reached its apex with the Commission's 2011 proposal for a Common Consolidated Corporate Tax Base (CCCTB), which was motivated primarily by the simplification of cross-border tax rules.

In the years that followed, EU tax policy underwent a marked normative and regulatory shift. Beginning in the aftermath of the financial crisis and intensifying with the international debate on base erosion and profit shifting (BEPS), legislative initiatives increasingly centered on combating aggressive tax planning and reinforcing anti-avoidance standards. In 2015, the Commission formally articulated "fair and efficient taxation" as a guiding principle of EU tax policy — a standard that has since served as the normative foundation for major directives in

the field of direct taxation.[4] The Commission articulated four main objectives under this standard: first, re-establishing the link between taxation and economic activity; second, ensuring that Member States can correctly value corporate activity in their jurisdiction; third, creating a competitive and growth-friendly corporate tax environment for the EU to achieve a more resilient corporate sector; and fourth, protecting the Single Market and securing a strong EU approach to external corporate tax issues, including measures to implement the OECD's BEPS recommendations.

A decade later, it is timely to assess whether the evolving EU tax framework meets the Union's own benchmark of fairness and efficiency, and how this recalibration has reshaped the balance between market integration and anti-avoidance enforcement. The adoption of ATAD I and II, successive amendments to the Directive on Administrative Cooperation (DAC), the implementation of EU defensive measures against non-cooperative jurisdictions, the introduction of private and public country-by-country reporting (CbCR), and most recently the transposition of the OECD's Pillar Two rules have created a dense and multi-layered regulatory architecture. This framework aims to protect national tax bases (e.g. ATAD I, Directive (EU) 2016/1164), strengthen perceived fairness in corporate taxation (e.g. Global Minimum Tax, Directive (EU) 2022/2523), and expand transparency regarding multinational tax practices (e.g. Public CbCR, Directive (EU) 2021/2101).

A substantial empirical literature documents that specific anti-avoidance instruments are effective in curbing aggressive tax planning. Studies on controlled foreign company (CFC) rules (e.g. Ruf and Weichenrieder, 2012; Clifford, 2019), thin-capitalisation rules (e.g. Blouin et al., 2014; Buettner et al., 2016), general anti-avoidance rules (e.g. Leung et al., 2019; Cowx and Kerr, 2024), and transparency measures (e.g. Evers et al., 2014; Godar et al., 2024)

[4] The European Commission's Communication on 17th June 2015, A Fair and Efficient Corporate Tax System in the European Union: 5 Key Areas for Action (COM(2015) 302 final), explicitly sets "fair and efficient taxation" as a key policy goal. The Anti-Tax Avoidance Directive 2016/1164 (ATAD I) was the first legislative act to outline "fair and efficient corporate taxation" as a guiding principle in its justification.

generally find significant reductions in profit shifting or related avoidance behavior. These findings have frequently been invoked to justify the progressive expansion and tightening of anti-avoidance legislation.

At the same time, a growing — though still fragmented — body of research points to potential unintended consequences. Anti-avoidance rules may increase tax complexity and compliance costs (D'Andria and Heinemann, 2023; European Parliament, 2024; Schanz et al., 2025), and can affect real economic decisions, including investment, innovation, risk-taking, and firm growth (Egger and Wamser, 2015; De Mooij and Liu, 2021; Hoppe et al., 2023; Hugger et al., 2024; De Simone et al., 2025). The emerging evidence therefore suggests a trade-off between base protection and economic efficiency that has not yet been comprehensively evaluated at the level of the EU's overall regulatory framework.

Against this backdrop, this article provides the first integrated assessment of the EU's post-2015 anti-avoidance architecture — combining evidence on the actual magnitude of profit shifting, and the effectiveness and side-effects of individual regulatory instruments within a single evaluative framework. Specifically, we proceed in three steps. First, we critically review the empirical literature on the magnitude of profit shifting by European multinationals in order to assess the extent to which further restrictions on tax avoidance are actually warranted. Second, we map the principal anti-BEPS measures adopted at the EU level, compare their design with similar regulations in non-EU OECD countries, and synthesize the available evidence on both their intended effects on avoidance behavior and their unintended economic consequences. We distinguish anti-BEPS measures resulting from the initial phase of the OECD's BEPS project and more recent instruments. Third, drawing on these two strands of evidence, we develop targeted policy recommendations that argue not for dismantling the anti-avoidance framework but for recalibrating it — eliminating rules whose marginal costs have come to outweigh their marginal benefits, while preserving effective safeguards against aggressive tax planning.

Beyond its economic assessment, the analysis also carries implications for EU law. While the European Court of Justice assesses anti-avoidance measures individually, the cumulative burden imposed by successive legislative instruments may generate restrictions on cross-border activity that become disproportionate to their revenue-protective objectives. If overlapping anti-avoidance measures increase compliance costs and legal complexity without commensurate reductions in profit shifting, questions arise not only of economic efficiency but also of proportionality under the fundamental freedoms guaranteed by the TFEU (European Commission, 2007).

These considerations have recently gained additional policy relevance. While this article was being finalized, the European Commission (2026) presented its Tax Simplification Package, including a proposed Tax Omnibus Directive and a recast of the Directive on Administrative Cooperation (DAC). The proposals explicitly seek to reduce regulatory overlap, simplify reporting obligations, lower compliance costs and strengthen the competitiveness of the Internal Market while maintaining effective protection against tax avoidance. Although these proposals remain subject to the legislative process and are considerably more incremental than the reforms advocated in this article, they reflect an important shift in policy priorities by recognizing regulatory simplification alongside anti-avoidance as an explicit objective of EU tax policy.

While the Commission's proposals focus primarily on targeted simplification of existing legislation, they do not provide a comprehensive economic assessment of where simplification is most warranted. Against this background, this article contributes to the emerging discussion on how the EU's anti-avoidance framework should evolve after a decade of rapid legislative expansion. Rather than questioning the legitimacy of combating aggressive tax planning, it asks whether the cumulative architecture has come to contain overlapping or insufficiently targeted instruments whose marginal economic costs outweigh their incremental anti-avoidance benefits. By combining evidence on the magnitude of profit shifting with evidence on the

effectiveness and unintended consequences of individual measures, the paper develops recommendations aimed at preserving effective safeguards against tax avoidance while reducing unnecessary complexity and restoring the balance between enforcement and competitiveness that the Union's own objective of "fair and efficient taxation" requires.

2 Magnitude of Profit Shifting by European Multinationals

Several studies attempt to quantify the scale of international profit shifting and the associated revenue losses using large cross-country datasets or macro-level approaches. An OECD study by Johansson et al. (2017), based on unconsolidated affiliate-level data from ORBIS, estimates that net revenue losses from profit shifting amount to 4–10 percent of global corporate income tax revenues, corresponding to roughly USD 100–240 billion in 2014. These figures equal approximately 0.13–0.3 percent of global GDP at that time.

Using alternative data sources and methodologies, other studies report similarly large or even higher implied magnitudes. Tørsløv et al. (2023), combining national accounts and foreign affiliate statistics for 2015, estimate that approximately 36 percent of global multinational profits are shifted to tax havens, implying global revenue losses of around USD 165 billion. Janský and Palanský (2019), exploiting bilateral foreign direct investment data from the IMF, estimate annual global revenue losses of USD 125 billion across 79 countries. Clausing (2016), using U.S. Bureau of Economic Analysis (BEA) data, reports estimates at the upper end of the spectrum. She calculates that global revenue losses from profit shifting amount to approximately USD 280 billion, while U.S. corporate tax revenues alone were reduced by USD 77–111 billion in 2012.

Related studies apply comparable approaches to assess revenue losses from profit shifting explicitly within the European Union and also find sizeable effects — perhaps even larger than in other regions. Tørsløv et al. (2023) estimate that reallocating shifted profits back to their place of origin would increase reported domestic corporate profits in high-tax EU Member States by roughly 20 percent in 2015, compared to around 10 percent in the United

States and 5 percent in developing countries. Country-level work by Garcia-Bernardo and Janský (2024), exploiting FDI-based indicators and CbCR data for 2017, confirms these patterns and suggests considerable heterogeneity within the Union: Germany, France, Italy, and Spain are estimated in some specifications to lose more than 15–20 percent of their corporate tax revenues to profit shifting, while a small group of Member States — including the Netherlands, Ireland, and Luxembourg — systematically attract shifted profits and associated tax bases (see also Nerudova et al., 2023). Álvarez-Martínez et al. (2022), using 2012 data, estimate annual EU corporate tax revenue losses of approximately EUR 36 billion, corresponding to 7.7 percent of corporate tax revenues.

The substantial dispersion of these estimates and their reliance on heterogeneous data sources motivate closer scrutiny of the underlying measurement approaches. Recent work by Blouin and Robinson (2025) highlights important measurement concerns that may bias some prominent estimates upward. They demonstrate that commonly used datasets, most notably the BEA data and related macro-level statistics, are subject to systematic double-counting and misattribution of foreign affiliate income when researchers fail to properly account for the equity method of accounting. In particular, profits earned by lower-tier affiliates are often recorded both in the jurisdiction where they are generated and again in intermediate holding jurisdictions through the recognition of "equity income." This mechanically inflates reported profits in low-tax conduit jurisdictions and depresses measured effective tax rates there. As a result, estimated tax semi-elasticities of reported income with respect to statutory rates may be overstated, and apparent non-linearities in profit shifting behavior may partly reflect accounting conventions rather than real economic responses. Comparable double-counting and attribution issues may also affect other commonly used datasets, including CbCR data and ORBIS.

When Blouin and Robinson (2025) replicate the Clausing (2016) estimates while correcting only for double counting and misattribution, estimated U.S. revenue losses decline dramatically, from USD 77–111 billion to roughly USD 11 billion. Importantly, they also

caution that similar double-counting and misattribution problems can arise in macro-based profit-shifting approaches — including those relying on national accounts and foreign affiliate statistics, such as Tørsløv et al. (2023) — if underlying accounting conventions and ownership chains are not properly adjusted. After reconciling discrepancies between different statistical sources and accounting treatments, the implied magnitude of globally shifted profits is reduced substantially, by roughly one half in their illustrative comparison, suggesting that part of the variation in headline estimates may reflect methodological rather than economic differences.

Further uncertainties surround these estimates. Studies based on unconsolidated financial information from ORBIS may suffer from limited representativeness of the firms included in the database. OECD (2020) documents that firms covered in ORBIS are, on average, larger, older, and more productive than the overall firm population. Moreover, the coverage of unconsolidated affiliate-level data varies substantially across countries. In particular, affiliates located in North America (Arndt, 2023) and in tax havens (Fuest et al., 2022) are known to be underrepresented. Such uneven coverage may distort cross-country profitability comparisons and bias estimated tax semi-elasticities.

At the same time, measurement error may also arise from discrepancies between taxable income and financial accounting profits. Using confidential tax return data for UK and Austrian firms, Bilicka (2019) and Amberger et al. (2026) show that profit-shifting estimates based on financial accounting data can understate the true magnitude of income reallocation. Taken together, these findings suggest that both the direction and magnitude of measurement bias depend critically on the underlying data source and accounting conventions employed. The resulting uncertainty surrounding headline revenue-loss figures underscores the need for cautious interpretation, a concern echoed in the broader review of the income shifting literature by Dyreng and Hanlon (2023), who conclude that macro-level estimates of the phenomenon are at times implausibly large and that the true magnitude remains an open question.

Beyond these methodological and data-related concerns, the relevance of existing estimates for current tax policy depends crucially on the covered time period of data and on which multinationals are responsible for the observed revenue losses. Most of the studies cited above rely on data from the pre-BEPS period and therefore cannot capture the effects of more recent anti-avoidance instruments introduced through the ATAD directives or private CbCR. Assessing the effectiveness of these measures is essential when evaluating the necessity of additional instruments, such as the Global Minimum Tax (GMT) or public CbCR, or when considering proposals for regulatory consolidation and decluttering.

Tørsløv et al. (2023) compare profit-shifting intensities by headquarters country and document substantial cross-country heterogeneity. In their preferred 2015 estimate, U.S. multinationals report roughly 54 percent of their foreign profits in tax havens, a share that is about twice as high as that of non-U.S. multinationals. Consistent with this pattern, approximately one half of globally shifted profits ultimately accrue to U.S.-parented firms, whereas slightly more than one quarter accrues to EU-parented multinationals. The authors conclude that the shifting intensity of U.S. multinationals exceeds that of European firms by a factor of about two.

At first glance, these findings may appear difficult to reconcile with the large revenue losses estimated for high-tax EU Member States. However, substantial revenue losses at the country level do not necessarily imply high shifting intensity among EU-headquartered firms. Given the extensive presence of foreign multinationals, particularly U.S.-parented firms, within the European Single Market, outward profit shifting from EU jurisdictions may largely reflect the tax planning strategies of non-EU multinationals operating in Europe rather than those of European firms themselves.

Other empirical studies broadly support this interpretation. Using confidential CbCR data for 2016–2017, Fuest et al. (2022) show that although 82 percent of German multinationals maintain at least one affiliate in a tax haven, only 9 percent of their global profits, and merely

3–4 percent of employees and fixed assets, are located in such jurisdictions. The implied annual revenue loss for Germany amounts to about €1.6 billion, corresponding to less than 0.05 percent of GDP and less than 5 percent of corporate tax revenues at the time.

Complementary evidence is provided by Thomsen and Watrin (2018), who compare effective tax rates (ETRs) of U.S. and European multinationals between 2005 and 2016. They document that U.S. firms' ETRs are on average around 11 percentage points below domestic statutory rates, whereas European multinationals' ETRs do not significantly deviate from their home-country statutory rates. Moreover, the decline in ETRs over time is markedly stronger for U.S. firms. Extending this comparison to the period 2015–2024, Koch and Oblinger (2025) show that these international differences have widened further: by 2024, the average ETR of European multinationals exceeded that of U.S. firms by almost 6 percentage points and that of Chinese firms by nearly 10 percentage points.

Focusing directly on the profit-shifting component of ETR reductions, Koch and Scheider (2025) analyse detailed tax reconciliation data for STOXX Europe 600 firms from 2011 to 2020. By isolating reconciliation items associated with cross-border income reallocation, they estimate that European multinationals reduced their GAAP ETRs through profit shifting by 1.2 to 1.9 percentage points (4.7 to 7.8 percent of the average ETR) in the period 2011–2017. While already modest in magnitude, these effects decline markedly after 2018, to only 0.5 to 0.6 percentage points (2.2 to 2.7 percent of the average ETR), with the reduction being statistically significant. Within their sample, profit-shifting effects remain more pronounced for Swiss firms, whereas multinationals headquartered in large high-tax European countries — such as Germany, France, Italy, and the United Kingdom — exhibit comparatively small and declining profit-shifting components in the post-2017 period.

Taken together, this review of the profit-shifting literature yields several implications for the future design of European tax policy. First, headline revenue-loss estimates reported in prominent global studies should be interpreted with caution, as they may be affected by

methodological and data-related biases that can materially influence the magnitude of the results. Second, available evidence suggests that a substantial share of profit-shifting-related revenue losses in high-tax EU Member States is associated with the activities of non-EU multinationals, particularly U.S.-headquartered firm, rather than with European multinationals themselves. This interpretive synthesis across several strands of evidence, together with persistent effective tax rate differentials between U.S. and EU firms, points not only to potential competitive asymmetries but also to the importance of carefully aligning anti-BEPS instruments with the underlying structure of profit shifting. If revenue losses are predominantly driven by foreign-headquartered firms, measures that primarily target EU-parented multinationals may have limited effectiveness. Finally, emerging post-BEPS evidence indicates that profit-shifting intensity among European multinationals has declined following the introduction of private CbCR and the ATAD directives. To the extent that this pattern is robust, the marginal benefits of additional restrictions — especially those focused on EU-headquartered firms — may be smaller than often assumed.

3 Early Anti-Tax Avoidance policies in the EU

As set out in the introduction, the Commission's 2015 framework articulated four explicit objectives under its guiding principle of "fair and efficient taxation" (European Commission, 2015). Looking back over the past decade, however, it becomes apparent that EU policy has predominantly — and in some respects almost exclusively — focused on the first, second, and fourth of these objectives. Legislative initiatives have concentrated on curbing profit shifting, enhancing transparency, and strengthening enforcement mechanisms, while the objective of fostering a competitive and growth-friendly corporate tax environment has received little direct attention. As a result, the cumulative effect of these reforms has imposed constraints on corporate behaviour (Egger and Wamser, 2015; De Mooij and Liu, 2021; Hoppe et al., 2023; Hugger et al., 2024; De Simone et al., 2025) whose full scope this section and the next seek to document.

This development is particularly consequential given the broader economic environment in which European firms currently operate. Over a short period, the EU economy has been exposed to a sequence of major external shocks, including the COVID-19 pandemic, the energy crisis following Russia's invasion of Ukraine, and more recent geopolitical conflicts affecting global energy markets and supply chains. These shocks have raised input costs, disrupted production networks, and weakened profitability, especially for energy-intensive firms. At the same time, European firms face increasing competitive pressure from global markets alongside structural disadvantages such as persistently higher energy costs, aging population and infrastructure, and dependencies in critical supply chains (Draghi, 2025).

Against this backdrop, the tightening of tax rules and any associated increase in tax complexity are unlikely to be neutral. Instead, they interact with already adverse economic conditions by further constraining firms' financing, investment, and organizational choices. Consequently, the evolution of EU tax policy over the last ten years may itself constitute a non-trivial challenge to corporate growth and competitiveness for European firms — contradicting the EU's own stated policy goals. In sections 3 and 4, we examine these mechanisms in detail by analysing the economic effects of specific anti-avoidance measures from the initial phase of the OECD's BEPS project (interest limitation rules (3.1), CFC regimes (3.2)) and of more recent instruments (the Global Minimum Tax (4.1), and public Country-by-Country Reporting (4.2)).

3.1 Interest Limitation Rules

3.1.1 Implementation

International debt shifting is one of the main channels for corporate tax avoidance (Heckemeyer and Overesch, 2017; Tørsløv et al., 2023). Multinational firms can reallocate debt across subsidiaries in different jurisdictions through intragroup loans. The goal is to maximize interest expenses in high-tax subsidiaries and receive interest income in low-tax subsidiaries, thereby

exploiting the tax differential. Interest limitation rules address debt shifting by setting a threshold above which interest expenses become non-deductible for tax purposes.

At the EU level, these rules were harmonized through the Anti-Tax Avoidance Directive (ATAD I), adopted in 2016 as part of the broader implementation of the OECD BEPS agenda (OECD, 2015a). Article 4 of ATAD I requires an interest limitation rule in the form of an earnings stripping rule that ties the ability to deduct interest expenses to a firm's current profitability. Under Article 4, taxpayers may deduct net borrowing costs only up to 30 percent of their earnings before interest, tax, depreciation, and amortization (EBITDA).[5] The rule goes beyond limiting profit shifting: it also restricts external loans, thereby significantly affecting a firm's overall financing strategy.

Table 1 provides an overview of interest limitation rules across EU Member States and non-EU OECD countries for 2014 (before BEPS), 2020 (after BEPS, but before Pillar Two), and 2026 (after Pillar Two). While 74 percent of all sample countries already had some form of interest limitation rule in place in 2014, these rules were predominantly thin-capitalization rules (TCR) targeting related-party debt: 47 percent of all countries relied on TCR only, while earnings stripping rules (ESR), either standalone or in combination with a TCR, were the exception, present in just 18 percent of jurisdictions. By 2026, this picture has been fundamentally transformed: 86 percent of sample countries now operate an ESR, with 100 percent adoption in the European Union. The regulatory shift driven by ATAD is most visible in the dimension of interest scope. In 2014, the majority of Member States restricted internal (related-party) interest only (44 percent); merely 22 percent of Member States restricted total interest expenses. By 2026, not a single EU Member State restricts only internal interest. Every country now applies an ESR covering all net borrowing costs regardless of whether the lender is a related party or an independent bank.

[5] Apart from the 30 percent EBITDA threshold, Member States were allowed to choose from a variety of escape clauses (for details, see De Simone et al., 2025).

Table 1: Overview Interest Limitation Rules

	2026			2020			2014		
Country	**Type**	**Restriction**	**Threshold**	**Type**	**Restriction**	**Threshold**	**Type**	**Restriction**	**Threshold**
EU									
Austria	ESR	Tot.	30% EBITDA	x	x	X	x	x	x
Belgium	ESR	Tot.	30% EBITDA	ESR	Tot.	30% EBITDA	x	x	x
	TCR	Int.	5:1 DtE	TCR	Int.	5:1 DtE	TCR	Int.	5:1 DtE
Bulgaria	ESR	Tot.	30% EBITDA	ESR	Tot.	30% EBITDA	Hybrid	Int.	3:1 DtE
	TCR	Int.	3:1 DtE	TCR	Int.	3:1 DtE			
Croatia	ESR	Tot.	30% EBITDA	ESR	Tot.	30% EBITDA	x	x	x
	TCR	Int.	4:1 DtE	TCR	Int.	4:1 DtE	TCR	Int.	4:1 DtE
Cyprus	ESR	Tot.	30% EBITDA	ESR	Tot.	30% EBITDA	x	x	x
Czech Republic	ESR	Tot.	30% EBITDA	ESR	Tot.	30% EBITDA	x	x	x
	TCR	Int.	4:1 DtE	TCR	Int.	4:1 DtE	TCR	Int.	4:1 DtE
Denmark	ESR	Tot.	30% EBITDA	ESR	Tot.	30% EBITDA	x	x	x
	TCR	Int.	4:1 DtE	TCR	Int.	4:1 DtE	TCR	Int.	4:1 DtE
Estonia	ESR	Tot.	30% EBITDA	ESR	Tot.	30% EBITDA	x	x	x
Finland	ESR	Tot.	25% EBITDA	ESR	Tot.	25% EBITDA	ESR	Tot.	25% EBITDA
France	ESR	Tot.	30% EBITDA	ESR	Tot.	30% EBITDA	Hybrid	Int.	1.5:1 DtE
	TCR	Int.	1.5:1 DtE	TCR	Int.	1.5:1 DtE			
Germany	ESR	Tot.	30% EBITDA	ESR	Tot.	30% EBITDA	ESR	Tot.	30% EBITDA
Greece	ESR	Tot.	30% EBITDA	ESR	Tot.	30% EBITDA	ESR	Tot.	60% EBITDA
Hungary	ESR	Tot.	30% EBITDA	ESR	Tot.	30% EBITDA			
	TCR	Int.	3:1 DtE	TCR	Int.	3:1 DtE	TCR	Int.	3:1 DtE
Ireland	ESR	Tot.	30% EBITDA	x	x	x	x	x	x
Italy	ESR	Tot.	30% EBITDA	ESR	Tot.	30% EBITDA	ESR	Tot.	30% EBITDA
Latvia	ESR	Tot.	30% EBITDA	ESR	Tot.	30% EBITDA			
	TCR	Int.	4:1 DtE	TCR	Int.	4:1 DtE	TCR	Int.	4:1 DtE
Lithuania	ESR	Tot.	30% EBITDA	ESR	Tot.	30% EBITDA	x	x	x
	TCR	Int.	4:1 DtE	TCR	Int.	4:1 DtE	TCR	Int.	4:1 DtE
Luxembourg	ESR	Tot.	30% EBITDA	ESR	Tot.	30% EBITDA	x	x	x
Malta	ESR	Tot.	30% EBITDA	ESR	Tot.	30% EBITDA	x	x	x
Netherlands	ESR	Tot.	24.5% EBITDA	ESR	Tot.	30% EBITDA	x	x	x
Poland	ESR	Tot.	30% EBITDA	ESR	Tot.	30% EBITDA	TCR	Int.	3:1 DtE
Portugal	ESR	Tot.	30% EBITDA	ESR	Tot.	30% EBITDA	ESR	Tot.	60% EBITDA
Romania	ESR	Tot.	30% EBITDA	ESR	Tot.	30% EBITDA	TCR	Int.	3:1 DtE
Slovakia	ESR	Tot.	30% EBITDA	ESR	Int.	30% EBITDA	x	x	x
Slovenia	ESR	Tot.	30% EBITDA	TCR	Int.	4:1 DtE	TCR	Int.	4:1 DtE
Spain	ESR	Tot.	30% Tax Operating Profit	ESR	Tot.	30% EBITDA	ESR	Tot.	30% EBITDA
Sweden	ESR	Tot.	30% EBITDA	ESR	Tot.	30% EBITDA	x	x	x
OECD (Non-EU)									
Australia	ESR	Tot.	30% EBITDA	TCR	Tot.	1.5:1	TCR	Tot.	1.5:1 DtE
Canada	ESR	Tot.	30% EBITDA	TCR	F. Int.	1.5:1	TCR	F. Int.	1.5:1 DtE
Chile	TCR	F. Int.	3:1 DtE	TCR	F. Int.	3:1	TCR	F. Int.	3:1 DtE
Colombia	TCR	Int.	2:1 DtE	TCR	Int.	2:1	TCR	F. Int.	3:1 DtE
Costa Rica	ESR	Int.	30% EBITDA	ESR	Int.	30% EBITDA	x	x	x
Iceland	ESR	Tot.	30% EBITDA	ESR	Tot.	30% EBITDA	x	x	x
Israel	x	x	x	x	x	x	x	x	x
Japan	ESR	F. Int.	20% ATI	ESR	F. Int.	50% ATI	ESR	F. Int.	50% ATI
	TCR	F. Int.	3:1 DtE	TCR	F. Int.	3:1 DtE	TCR	F. Int.	3:1 DtE
Korea	ESR	F. Int.	30% EBITDA	ESR	F. Int.	30% EBITDA	TCR	F. Int.	3:1 DtE
Mexico	ESR	Tot.	30% EBITDA	ESR	Tot.	30% EBITDA	x	x	x
	TCR	F. Int.	3:1 DtE	TCR	F. Int.	3:1 DtE	TCR	F. Int.	3:1 DtE
New Zealand	TCR	F. Int.	60% DtA	TCR	F. Int.	60% DtA	TCR	Int.	60% DtA
Norway	ESR	Tot.	25% EBITDA	ESR	Tot.	25% EBITDA	ESR	F. Int.	30% EBITDA
Switzerland	TCR	Int.	flexibel % DtA	TCR	Int.	flexibel % DtA	TCR	Int.	flexibel % DtA
Türkiye	TCR	Int.	3:1	TCR	Int.	3:1	TCR	Int.	3:1 DtE
United Kingdom	ESR	Tot.	30% EBITDA	ESR	Tot.	30% EBITDA	x	x	x
United States	ESR	Tot.	30% ATI	ESR	Tot.	30% ATI	TCR	F. Int.	1.5:1 DtE

Notes: The table reports statutory interest limitation rules in force in each reference year. Type: ESR = earnings-stripping rule (deductibility capped relative to earnings); TCR = thin-capitalization rule (deductibility tied to a debt ratio); Hybrid = a combination of the two. Restriction: Tot. = total net borrowing costs; Int. = related-party interest only; F. Int. = foreign related-party interest only. Threshold: earnings-based caps are expressed relative to EBITDA or ATI (adjusted taxable income); ratio-based caps as a maximum debt ratio, where DtE = debt-to-equity and DtA = debt-to-assets. "x" indicates no rule of that type was in force.

The picture is markedly different for non-EU OECD members. While the number of ESR-applying countries has increased significantly in this group as well — from 6 percent in 2014 to 50 percent in 2026 — a substantial share of countries still applies a TCR that is limited in scope to internal or foreign intragroup debt. Furthermore, even among non-EU OECD countries that have adopted an ESR, a substantial share restricts only (foreign) intragroup financing rather than all net borrowing costs. The extent to which these differences place EU firms at a competitive disadvantage — for example by constraining their overall capital structure and real activity — is examined in the following section.

3.1.2 Intended and Unintended Consequences

A broad body of work confirms that interest limitation rules — whether thin-capitalization rules based on balance-sheet ratios or earnings-based rules — reduce the scope for tax-motivated internal debt (Overesch and Wamser, 2010; Buettner et al., 2012, 2016; Buslei and Simmler, 2012; Blouin et al., 2014; Wamser, 2014). These findings are robust across a range of institutional settings and data sources, and establish a credible causal link between the introduction of interest limitation rules and a reduction in intragroup debt shifting. However, their effects on firms' overall capital structure and investment behavior are more nuanced and depend critically on the scope of debt covered by the rule.

Studies focusing on total or external debt often find more modest and heterogeneous effects. Evidence from the U.S. Section 163(j) reform — an earnings-based rule similar to the ATAD design — supports this view: Carrizosa et al. (2023) and Hanlon and Heitzman (2024) find limited reductions in overall leverage, with many firms maintaining external borrowing despite tighter deductibility rules. Goodman et al. (2025) likewise find small aggregate changes in total debt when firms face earnings-contingent thresholds but retain flexibility to restructure financing. In contrast, De Mooij and Hebous (2018) find that interest limitation rules that apply

to all debt, rather than only to related-party loans, lead to a meaningful reduction in total leverage, lowering firms' debt-to-asset ratios.

De Simone et al. (2025) analyse directly the real economic effects of introducing the ESR in Europe in 2019. They examine whether the real effects of interest limitation rules depend on rule design, and in particular whether outcomes differ between TCR and ESR regimes. They document that the EU ESR reform significantly decreased total leverage of firms affected by the reform (debt-to-asset ratio: minus 2.3 percentage points). Moreover, and more importantly for the purposes of this paper, they also show that the ESR reform had significant real effects, particularly on investment (minus 18 percent) and risk-taking (minus 13 percent). These effects are strongest in countries that had no interest limitation rule or only a TCR prior to the reform, and for firms with the highest pre-reform risk. Taken together, these effects translate into lower growth and innovation among affected firms. The diminishing effect of ESR on innovation is also confirmed in a recent study by Chen et al. (2026).

Fich et al. (2025) highlight a further negative real effect associated with earnings stripping rules: a negative impact on mergers and acquisitions (M&A), a key mechanism for corporate investment and resource reallocation. Their study suggests that while earnings stripping rules may succeed in limiting tax-motivated debt allocation, they also distort investment behavior by constraining the use of leverage in value-generating transactions. As with broader investment and innovation effects, the regulation appears to penalize precisely those firms that rely most heavily on external financing to pursue growth opportunities.

Taken together, the evidence on interest limitation rules points to two key design problems at the heart of Article 4 ATAD. First, the rule succeeds in reducing intragroup debt shifting — its stated objective — but its extension to all net borrowing costs, including third-party bank debt, imposes costs on legitimate financing activity that are not justified by the anti-avoidance rationale. The firms most constrained by the EBITDA-based threshold are not the large profitable multinationals with the greatest capacity for debt shifting, but rather firms that

depend on external capital markets precisely because they lack internal cash generation. Second, by linking interest deductibility to profitability, the ESR is most restrictive precisely when firms are least profitable and face the greatest uncertainty about future earnings. Altogether, the ESR, as implemented in Europe, creates real effects on investment and risk-taking that would not arise under a TCR — effects that fall outside the rule's stated anti-avoidance purpose and that the policy recommendations in section 5 seek to address.

3.2 Controlled Foreign Company (CFC) Rules

3.2.1 Implementation

CFC rules attribute the passive or highly mobile income of low-taxed foreign subsidiaries to the parent company in its Member State of residence, thereby preventing the diversion of profits to entities lacking substantive economic activity. The objective is to neutralize tax advantages arising from the use of offshore or low-substance structures.

Table 2 summarizes the design of CFC rules across EU Member States and non-EU OECD countries for 2014, 2020, and 2026. Interestingly, the non-EU OECD members' 76 percent implementation quota surpassed that of the EU (56 percent) up until 2014, i.e. before implementation of the OECD BEPS measures. By 2020, EU coverage had reached 100 percent. Among non-EU OECD countries, coverage also increased over this period, but two of the 16 countries in the sample — Costa Rica and Switzerland — had not introduced CFC rules as of 2026. All countries that had CFC regulations in place maintained them following the implementation of the Global Minimum Tax.

Differences arise, however, with regard to the approach taken to define income falling under the CFC regulation. Model A defines certain categories of passive income — including but not limited to interest, royalties, and other financial activities — which are then attributed to the taxpayer. Model B evaluates the entity: non-distributed income of entities deemed part of a non-genuine arrangement, the essential purpose of which is to obtain a tax advantage, is

Table 2: Controlled Foreign Company Rules

	2026			2020			2014		
Country	**Threshold**	**Model**	**Escape**	**Threshold**	**Model**	**Escape**	**Threshold**	**Model**	**Escape**
EU									
Austria	15% ETR	A	S + D	12.5% ETR*	A	S + D	x	x	x
Belgium	12.5% ETR*	A	D	12.5% ETR*	B	S + D	x	x	x
Bulgaria	5% ETR*	Other	S	5% ETR*	Other	S	x	x	x
Croatia	9% ETR*	A	S + D	9% ETR*	A	S + D	x	x	x
Cyprus	6.25% ETR*	B	S + D	6.25% ETR*	B	S + D	x	x	x
Czech Republic	10.5% ETR*	A	S	9.5% ETR*	A	S	x	x	x
Denmark	None	A	S + D	Financial Activities	A	S + D	Financial Activities	A	S
Estonia	None	B	S + D	S Test	B	S + D	7% ETR*	B	S
Finland	12% ETR*	Other	S	12% ETR*	Other	S + D	12% ETR**	Other	S + D
France	15% ETR*	Other	S	18.6% ETR*	Other	S + D	16.67% ETR*	Other	S + D
Germany	15% ETR	A	S + D	25% ETR	A	S + D	25% ETR	A	S + D
Greece	11% ETR*	A	S + D	12% ETR*	A	S + D	13% ETR*	A	S + D
Hungary	4.5% ETR*	B	S + D	4.5% ETR*	B	S + D	10% ETR	A	S
Ireland	6.25% ETR*	B	S + D	6.25% ETR*	B	S + D	x	x	x
Italy	15% ETR	B	S + D	12% ETR*	B	S + D	13.75% ETR*	A	S + D
Latvia	None	B	S + D	Artificial Arrangement	B	S + D	x	x	x
Lithuania	8.5% ETR*	A	S + D	7.5% ETR*	A	S + D	11.25% ETR**	A	S + D
Luxembourg	7.5% ETR*	B	S + D	8.5% ETR*	B	S + D	x	x	x
Malta	17.5% ETR*	B	S + D	17.5% ETR*	B	S + D	x	x	x
Netherlands	9% CIT	A	S + D	9% CIT	A	S + D	x	x	x
Poland	14,25% ETR*	Other	S + D	9.5% ETR*	Other	S + D	x	x	x
Portugal	9.5% ETR*	A	S + D	10.5% ETR*	A	S + D	13.8% CIT	A	S + D
Romania	8% ETR*	A	S + D	8% ETR*	A	S + D	x	x	x
Slovakia	12% ETR*	B	S	10.5% ETR*	B	S	x	x	x
Slovenia	11% ETR*	A	S + D	9.5% ETR*	A	S + D	x	x	x
Spain	18.75% ETR*	A	S + D	18.75% ETR*	A	S + D	22.5% ETR*	A	S + D
Sweden	11.33% ETR*	A	S	11.77% ETR*	A	S	12.1% ETR**	A	S
OECD (Non-EU)									
Australia	Active Income Test	B	S + D	Active Income Test	B	S + D	Country List	A	S + D
Canada	Passive Investment Income	B	S	Passive Investment Income	B	S	25% ETR**	B	S
Chile	Tax Haven	B	S + D	Tax Haven	B	S + D	x	x	x
Colombia	Passive Income	B	S + D	Passive Income	B	S + D	x	x	x
Costa Rica	x	x	x	x	x	x	x	x	x
Iceland	13.33%*	A	S	13.33% ETR*	A	S	13.33% ETR**	A	S
Israel	15% ETR	B	S + D	15% ETR	B	S + D	15% ETR	B	S + D
Japan	20% ETR	B	S + D	20% ETR	B	S + D	20% ETR	B	S + D
Korea	17.5% ETR*	A	S	15% ETR	A	S	15% ETR**	A	S
Mexico	21%*	A	S	22.5% ETR*	A	S	22.5% ETR*	A	S
New Zealand	None	B	S	Passive Income	B	S	Passive Income	B	S + D
Norway	14.66% ETR*	A	S	14.66% ETR*	A	S	18% ETR*	A	S
Switzerland	x	x	x	x	x	x	x	x	x
Türkiye	10% ETR	A	D	10% ETR	A	D	10% ETR	A	D
United Kingdom	18.75% ETR*	B	S + D	14.25% ETR*	B	S + D	15.75% ETR**	B	S + D
United States	18.9% ETR**	B	S + D	18.9% ETR**	B	S + D	31.5% ETR**	B	S + D

Notes: The table reports statutory controlled foreign company (CFC) rules in force in each reference year. The threshold gives the condition bringing a foreign subsidiary within the regime: an effective tax rate (ETR) or corporate income tax (CIT) threshold below which it is treated as low-taxed, or a qualitative trigger (e.g., passive income, tax haven or country list, artificial-arrangement test). "None" denotes a regime with no low-tax threshold; "x" denotes no CFC rule in force. Model follows ATAD Article 7(2): Model A captures defined categories of passive income, Model B income from non-genuine arrangements, and "Other" a design conforming to neither. Escape: S = substance escape; D = de minimis threshold; S+D = both. (*) denotes a threshold assessed by hypothetical tax paid; (**) a threshold expressed as a percentage of CIT.

then attributed to the taxpayer. Hence, Model B leaves more leeway for tax planning because income attribution is only triggered where the parent jurisdiction can demonstrate that the CFC's arrangement is non-genuine.

In the EU, Member States are broadly divided between Model A (52 percent) and Model B (37 percent), alongside three countries adopting hybrid or sui generis approaches classified as "Other" (11 percent). Smaller EU countries — especially those historically more taxpayer-friendly, such as Luxembourg, Ireland, and Cyprus — implemented Model B. Among non-EU OECD members, Model B predominates, adopted by 56 percent of jurisdictions in 2026 compared to only 31 percent applying Model A. This suggests that outside the mandatory harmonization framework of ATAD, countries tend to favor the substance-based approach that leaves more discretion to taxpayers and tax authorities alike. Altogether, the implementation of CFC regulations tends to be more restrictive in the European Union than among other industrialized countries. As discussed further in section 5, the introduction of the Global Minimum Tax raises questions about the continued independent justification for CFC rules, given the substantial overlap between the income targeted by both instruments (see Spengel et al., 2026, for a detailed mapping of this overlap across EU Member States).

3.2.2 Intended and Unintended Consequences

While CFC regimes differ in scope and design, the emerging body of evidence provides reasonably consistent conclusions regarding their effects on profit shifting, real activity, and multinational group structures.

In line with theoretical models (Haufler et al., 2016; Overesch et al., 2024), Ruf and Weichenrieder (2012) document that binding CFC rules significantly reduce the holding of passive assets and the booking of passive income in low-tax affiliates. Reforms that loosened German rules, prompted by the ECJ's Cadbury Schweppes decision, led to a measurable reallocation of passive investment toward newly exempt jurisdictions, illustrating both the

effectiveness of CFC legislation and firms' capacity to adjust to changes in legal constraints (Ruf and Weichenrieder, 2012). Their findings are reinforced through cross-country evidence by Clifford (2019), who shows that CFC rules reduce the use of low-tax subsidiaries for shifting income. Affiliates exposed to stricter rules report substantially lower financial profits — a decline of around 13 percent — consistent with a narrowing of profit-shifting opportunities. At the same time, financial profits in the country of the ultimate owner increase by 4.4 percent, documenting an effect in line with the policy goal. Buettner and Wamser (2013) provide evidence that the German CFC regulation reduced the incentive for German-based multinationals to use internal debt for shifting profits to low-tax jurisdictions, though the effect is modest and only one of several factors constraining such shifting.

More recent evidence paints a more qualified picture of CFC effectiveness. On the question of whether CFC rules successfully prevent profit shifting to low-tax jurisdictions, the findings are mixed. Hansen, Merlo, and Wamser (2024), exploiting exogenous variation from tax notches created by CFC rules across a broad cross-country sample, find that CFC treatment does reduce reported profits in directly targeted affiliates. Yet the displaced profits flow not to the parent country but to the next-best low-tax alternative within the group — specifically affiliates located just above the relevant CFC threshold. Parent companies show no significant increase in reported profits, suggesting that home countries bear the administrative and enforcement costs of CFC legislation without recouping meaningful tax revenue. Gschossmann and Pfrang (2024), studying the harmonized EU-wide implementation under ATAD, corroborate this pattern: while affected MNEs reduce the share of CFC subsidiaries, the financial income of persisting CFC subsidiaries remains largely unchanged, and there is no evidence of income being rerouted to non-CFC sister entities or parent firms.

Turning to real activity, the picture is similarly qualified. Egger and Wamser (2015) provide causal evidence that the German CFC rule imposes a genuine and substantial cost-of-capital penalty on real investment: using a regression discontinuity design that exploits the

multi-dimensional threshold structure of the German legislation, they find that CFC treatment reduces foreign fixed assets by approximately €7 million per subsidiary. These effects operate primarily at the intensive margin of real capital within continuing affiliates. Yet rather than triggering a repatriation of economic substance to the parent country, the broader evidence suggests a reshuffling within the multinational group. Hansen, Merlo, and Wamser (2024) find that employment declines in treated low-tax affiliates but increases in untreated affiliates that absorb redirected activity, while parent-level investment and productivity remain unaffected. Gschossmann and Pfrang (2024) add a further dimension: rather than genuinely relocating activity, MNEs appear to exploit the economic activity exemptions embedded in ATAD by increasing employee costs in CFC subsidiaries without meaningfully expanding headcount or investment, reflecting a low-cost strategy to satisfy exemption criteria on paper rather than a genuine reorientation of business activity.

Finally, the effectiveness of CFC rules under ATAD varies considerably depending on the model chosen by Member States, with important implications for how firms respond. Model A, which targets passive income and provides an explicit economic activity exemption, produces sharper behavioural responses than Model B. MNEs headquartered in Model A countries show a statistically significant reduction in the share of CFC subsidiaries (Gschossmann and Pfrang, 2024), and the increase in employee costs at those subsidiaries is likewise more pronounced, consistent with firms inflating compensation to meet the substantive economic activity threshold at minimal cost. The authors attribute these sharper responses to the greater legal clarity of Model A: because the passive income threshold and the exemption criteria are well-defined, firms can readily identify which subsidiaries are at risk and respond decisively. Model B, by contrast, applies to non-genuine arrangements without precisely defining that concept, creating legal uncertainty that dampens sharp location responses. Paradoxically, then, the greater design clarity of Model A — often viewed as a legislative virtue — may make it easier for firms to identify and exploit the exemption loophole, while Model

B's ambiguity, though reducing predictability, also makes systematic circumvention more difficult. Neither model, however, appears to have achieved the deeper policy goal of genuinely aligning taxation with real economic substance, and both leave meaningful scope for avoidance within the boundaries of the law.

Across the empirical literature, several broad conclusions emerge. First, CFC rules can reduce the booking of passive income in directly targeted affiliates, though the displaced income often migrates to alternative low-tax locations rather than returning to the parent jurisdiction — limiting the revenue gains that home countries actually recoup. Second, while CFC regimes can influence real investment and ownership structures, these effects are typically modest and tend to manifest as intra-group reshuffling rather than genuine repatriation of economic substance. Third, firms often respond to CFC tightening by re-optimizing within the international tax system, exploiting exemption criteria or shifting activity to jurisdictions just outside the rule's scope.

These conclusions carry direct implications for the competitive position of European multinationals. As documented in section 3.2.1, EU Member States apply CFC rules that are on average more restrictive than those of non-EU OECD countries, both in terms of coverage and in the scope of income targeted. Most non-EU OECD jurisdictions, including the United States, apply Model B or equivalent substance-based approaches that leave greater discretion to taxpayers, and a substantial share restricts only foreign intragroup income rather than all passive income. To the extent that CFC rules constrain the organizational and financing choices of multinational groups — as the evidence on real investment effects and intra-group reshuffling costs suggests — European multinationals operating under stricter Model A regimes face compliance burdens and structural constraints that their non-European peers largely do not.

These compliance burdens are not incidental to CFC rules but intrinsic to their design: the OECD itself identifies the need to balance effectiveness against the administrative and compliance burdens they impose as one of the core shared design considerations, reflecting that

the attribution of CFC income generally requires recomputing a foreign subsidiary's profits under the parent jurisdiction's tax rules (OECD, 2015b). Survey evidence places this within a broader pattern: large US multinationals, for example, attribute 43 percent of their federal income-tax compliance costs to rules governing foreign-source income, and single out CFC reporting obligations as one of the provisions most frequently cited as driving that burden (McBride, 2024).

This asymmetry is compounded by the finding that stricter rules do not necessarily translate into greater revenue recovery, since displaced profits tend to migrate to the next-best low-tax alternative rather than returning to the parent jurisdiction. European firms thus bear the costs of restrictive CFC legislation without the compensating benefit of a level playing field with their global competitors.

Taken together, these findings suggest that the marginal anti-avoidance contribution of CFC rules has declined as the broader anti-avoidance framework has tightened — a pattern that assumes particular significance in light of the Global Minimum Tax, which targets much of the same low-taxed income through parallel mechanisms. The resulting overlap between the two instruments, combined with the competitive asymmetry documented above, raises questions of proportionality and regulatory efficiency that the policy recommendations in section 5 seek to address.

4 More recent Anti-Tax Avoidance policies in the EU

4.1 Global Minimum Tax

4.1.1 Implementation

We now turn to instruments implemented after the initial phase of the OECD BEPS project.

The Global Minimum Tax (GMT), which emerged from a political consensus among more than 135 countries in 2021 and whose international implementation began in 2024, pursues a similar objective as CFC regulations but is grounded in a more comprehensive

approach intended to be applied uniformly around the globe. Under the GMT, top-up taxes arise if the country-level effective tax rate (ETR) of MNEs with consolidated revenues above EUR 750 million falls below the 15 percent threshold. In this case, the top-up tax can be collected either by the low-tax country itself (QDMTT), at the location of the ultimate parent entity (IIR), or at any other location of the MNE (UTPR). In contrast to CFC regimes, the UTPR ensures that MNEs may also be taxed if the parent company's country or the countries of any intermediate parents have not implemented the rules themselves. This integrated system of rules, designed to operate on a global scale, aims to limit international profit shifting and tax competition and to achieve a more level international playing field in terms of corporate tax burdens.

In contrast to CFC regulations, the application of the GMT is not limited to a specific type of income. However, the Substance-based Income Exclusion (SBIE) rule effectively exempts earnings related to substantive operative activities from top-up taxation. As a consequence, the income falling within the scope of CFC rules and the GMT is of a similar type, though not identical.

The EU Minimum Tax Directive (Council Directive (EU) 2022/2523) transposes these instruments into EU law and mandates the application of the IIR from 2024 and the UTPR from 2025. Five Member States — Estonia, Latvia, Lithuania, Malta, and Slovakia — can opt for a six-year deferral (first application for tax years starting on or after 1 January 2030) and all of them have done so. Outside the European Union, the adoption is much more heterogeneous. Table 3 gives an overview of the implementation status in the EU and OECD countries (PwC, 2025; WTS, 2026).

Table 3: Implementation Global Minimum Tax

Country	IIR	UTPR	QDMTT
EU			
Austria	2024	2025	2024
Belgium	2024	2025	2024
Bulgaria	2024	2025	2024
Croatia	2024	2025	2024
Cyprus	2024	2025	2025
Czech Republic	2024	2025	2024
Denmark	2024	2025	2024
Estonia	Deferred (2030)	Deferred (2030)	Deferred (2030)
Finland	2024	2025	2024
France	2024	2025	2024
Germany	2024	2025	2024
Greece	2024	2025	2024
Hungary	2024	2025	2024
Ireland	2024	2025	2024
Italy	2024	2025	2024
Latvia	Deferred (2030)	Deferred (2030)	Deferred (2030)
Lithuania	Deferred (2030)	Deferred (2030)	Deferred (2030)
Luxembourg	2024	2025	2024
Malta	Deferred (2030)	Deferred (2030)	Deferred (2030)
Netherlands	2024	2025	2024
Poland	2025	2025	2025
Portugal	2024	2025	2024
Romania	2025	2025	2025
Slovakia	Deferred (2030)	Deferred (2030)	2024
Slovenia	2024	2025	2024
Spain	2024	2025	2024
Sweden	2024	2025	2024
OECD (Non-EU)			
Australia	2024	2025	2024
Canada	2024	2025	2024
Chile	x	x	x
Colombia	x	x	x
Costa Rica	x	x	x
Iceland	Likely 2026	x	Likely 2026
Israel	x	x	2026
Japan	2024	April 2026	April 2026
Korea	2024	2025	2024
Mexico	x	x	x
New Zealand	2025	2025	2026 (DIIR)
Norway	2024	2025	2024
Switzerland	2025	x	2024
Türkiye	2024	2025	2024
United Kingdom	2024	2025	2024
United States	no, GILTI	x	x

Notes: The table reports the first fiscal year of application of the three Pillar Two instruments : the Income Inclusion Rule (IIR), Undertaxed Profits Rule (UTPR), and Qualified Domestic Minimum Top-Up Tax (QDMTT) for EU Member States and non-EU OECD countries. "Deferred (2030)" denotes deferral under the EU Minimum Tax Directive (Directive (EU) 2022/2523); "Likely [year]" an instrument expected but not yet enacted; "DIIR" a Domestic Income Inclusion Rule; "GILTI" the pre-existing U.S. Global Intangible Low-Taxed Income regime; "x" the instrument is not adopted.

Among non-EU OECD members, 69 percent have implemented an IIR, 50 percent a UTPR, and 69 percent a QDMTT, with notable absences including Mexico, Chile, Colombia, and Costa Rica, which have not announced any implementation plans. The United States represents the most consequential non-adopter: rather than implementing Pillar Two, it has reformed its existing GILTI rules under the One Big Beautiful Bill Act to produce a de facto minimum tax of approximately 12.6–14 percent (Mengden, 2025), and secured a G7 political agreement in June 2025 that would exempt US-parented groups from the IIR and UTPR applied by other jurisdictions. Furthermore, this side-by-side system enables other countries to opt out of global minimum taxation and implement a national solution instead. Brazil is already in communication with the OECD to set up a qualified side-by-side status for their system (Sholli, 2026), and other major economies such as China and India appear to be considering this alternative. The result is a two-speed global minimum tax: a largely harmonized EU framework on one side, and a fragmented landscape of partial or non-adoption on the other — a divergence with direct implications for the competitive neutrality that Pillar Two was designed to achieve.

4.1.2 Intended and Unintended Consequences

Policymakers pursued three key objectives with the GMT: reducing international profit shifting to achieve higher and more fairly distributed tax revenues, limiting harmful tax competition by establishing a minimum tax floor, and creating fairer competitive conditions among firms through a more level playing field of tax burdens. The uneven implementation and the emergence of the side-by-side arrangement make it questionable whether these objectives will ultimately be achieved in practice (Koch et al., 2026).

Ex-ante studies of the revenue effects of the GMT predicted substantial amounts. Hugger et al. (2024) provide a comprehensive global simulation, combining CbCR data with aggregated firm-level data from Orbis to estimate jurisdictional ETRs and top-up tax liabilities, predicting that global CIT revenues may rise by 6.5–8.1 percent, or USD 155 to 192 billion.

However, this study may overstate the actual revenue effects, as it disregards the non-implementation in major economies such as the United States, China, and India, the consequences of the side-by-side arrangement, and potential second-order effects. Furthermore, the assumption that the GMT will reduce global profit shifting by half seems overly optimistic, given that several classical tax havens have not implemented QDMTTs. Related ex-ante studies that predict similarly large effects for certain subsets of countries (e.g., Baraké et al., 2022; Boukal et al., 2025) may be subject to similar upward bias for the same reasons.

First ex post studies on the impact of Pillar Two draw a different picture. Koch and Oblinger (2025) assess the GMT exposure of German-based MNEs in 2024, based on a survey of more than 130 MNEs that fall within the GMT's general scope. According to their calculations, almost 60 percent of the German MNEs in their sample will not face any top-up tax, while for most of the remainder the top-up tax burden is not substantial. Altogether, they estimate a top-up tax revenue of only EUR 700 million from the taxation of German MNEs; a substantial share of this revenue will be collected at foreign locations once all applicable QDMTTs are fully in force. Deloitte Switzerland's (2025) impact study, analysing the 50 largest listed Swiss corporations (SMI and SMIM index members), found that only about one-third owed any top-up liability for 2024, together amounting to CHF 243.2 million in top-up taxes globally, some portion of which accrues outside Switzerland. Deloitte also estimates that less than CHF 200 million will remain payable within Switzerland itself, a sum well below the federal government's earlier projections of CHF 1–2.5 billion in the first years. Taken together, these two country-level studies suggest that actual top-up tax collections across European jurisdictions fall well short of the projections generated by ex-ante simulations, raising serious questions about whether the GMT's revenue impact justifies the compliance burden it imposes.

Beyond the revenue shortfall documented above, the scattered and uneven implementation of the GMT also raises concerns about whether the level playing field goal will be achieved in practice, as Koch, Ostermann, and Spengel (2026) examine. MNEs

headquartered in the European Union will broadly fall under the GMT, given the comprehensive and uniform EU-wide implementation. By contrast, Chinese and US MNEs may largely fall outside the scope of the GMT. The side-by-side agreement effectively exempts US MNEs from IIR and UTPR at foreign locations. Since two important investment destinations of US MNEs — the Cayman Islands and Bermuda — have not implemented QDMTTs, profit shifting opportunities are not effectively closed. Furthermore, the reformed GILTI regime, while producing a de facto minimum tax of approximately 12.6–14 percent, falls short of the Pillar Two standard and is not recognised as equivalently effective (Mengden, 2025). China has not yet applied for side-by-side status, though this remains a possibility. However, even now many Chinese MNEs may be affected only to a small extent, as two significant investment destinations — the Cayman Islands and the British Virgin Islands — have not implemented QDMTTs, and none of the top six FDI destinations of China has implemented a UTPR. As a consequence, although the exposure to top-up tax for European MNEs is likely to be low in absolute terms, the GMT may well increase already existing differences in average ETRs across countries rather than reducing them.

Koch and Oblinger (2025) further raise concerns about whether the GMT will remove competitive distortions within countries. According to their findings, a substantial share of top-up taxes of German MNEs arises not in classic low-tax countries, which suggests that top-up tax liability arises not only from profit shifting but also from mechanical effects — for instance in cases of losses, restructurings, or high inflation. In line with this argument, they also show that the top-up tax exposure of German MNEs correlates only weakly with the consolidated ETR of these MNEs prior to the GMT.

Johannesen (2022) postulates that non-havens may observe a loss in welfare since tax havens are incentivized to raise their tax rate to the global minimum, increasing the tax cost for MNEs without increasing tax revenue in non-havens. The author predicts a positive welfare effect only if the minimum tax rate is high enough to end all profit-shifting incentives. Hebous

and Keen (2023) develop a formal model of international corporate tax competition to determine the welfare-maximizing tax rate for a GMT. Based on an initial rate of 12.5 percent, the authors estimate that an optimal minimum tax rate may lie between 17 and 20 percent, suggesting that the current 15 percent floor may be too low to discourage profit shifting to a welfare-maximizing extent.

Taken together, although the full economic implications of the GMT remain uncertain at this early stage, there are strong reasons to conclude that its uneven implementation will place European MNEs at a competitive disadvantage and reduce welfare in Europe. The GMT increases the ETRs of European multinationals to some extent, yet the resulting revenue will most likely be collected outside Europe. Non-European MNEs are likely to face substantially lower exposure. Beyond the direct tax burden, the GMT imposes substantial compliance costs at both the firm level (Bray et al., 2025) and for tax authorities. This assessment is in line with Hanlon and Nessa (2023), who critique the complexity of the GMT and question whether the system efficiently targets its stated goal. Together, these concerns point toward the need for targeted adjustments to the EU's implementation of Pillar Two, which the policy recommendations in section 5 seek to address.

4.2 (Public) Country-by-Country Reporting (CbCR)

4.2.1 Implementation

CbCR originated as a confidential tool under BEPS Action 13, designed to support risk assessment by tax administrations (OECD, 2015c). Multinational enterprise groups with consolidated revenues exceeding EUR 750 million are required to file a country-by-country report with their home tax authority, disclosing key financial and tax data — including revenues, profits, taxes paid, number of employees, and tangible assets — broken down by jurisdiction. These reports are then exchanged between tax administrations under bilateral competent authority agreements, allowing revenue authorities to identify risk indicators such as

mismatches between where profits are reported and where economic activity takes place, without the underlying data being accessible to the general public. The debate quickly broadened to whether such information should be made public, not least because civil society actors argued that transparency towards tax authorities alone would not sufficiently discipline multinational tax planning.

Table 4 documents the adoption of both private and public CbCR across 27 EU Member States and 16 non-EU OECD countries for 2020 and 2026. Private CbCR is near-universal across the full sample: all EU Member States and 88 percent of non-EU OECD countries had implemented it by 2020, reflecting the broad uptake of the BEPS Action 13 minimum standard. Public CbCR tells a starkly different story. In 2020, not a single country in the sample had introduced mandatory public disclosure. By 2026, all 27 EU Member States have implemented public CbCR pursuant to Directive 2021/2101, bringing EU adoption to 100 percent. Outside the EU, however, public CbCR remains almost entirely absent, with only one of the 16 non-EU OECD countries in the sample having introduced it and two more with pending legislation. This 6 percent adoption rate underscores the EU's uniquely assertive and, to date, largely isolated position on mandatory public tax transparency. This sharp divergence raises questions of competitive neutrality: European multinationals face public disclosure obligations that their non-European peers do not.

Table 4: (Public) Country-by-Country Reporting (CbCR)

	2026		2020	
Country	**Private**	**Public**	**Private**	**Public**
EU				
Austria	Yes	Yes	Yes	x
Belgium	Yes	Yes	Yes	x
Bulgaria	Yes	Yes	Yes	x
Croatia	Yes	Yes	Yes	x
Cyprus	Yes	Yes	Yes	x
Czech Republic	Yes	Yes	Yes	x
Denmark	Yes	Yes	Yes	x
Estonia	Yes	Yes	Yes	x
Finland	Yes	Yes	Yes	x
France	Yes	Yes	Yes	x
Germany	Yes	Yes	Yes	x
Greece	Yes	Yes	Yes	x
Hungary	Yes	Yes	Yes	x
Ireland	Yes	Yes	Yes	x
Italy	Yes	Yes	Yes	x
Latvia	Yes	Yes	Yes	x
Lithuania	Yes	Yes	Yes	x
Luxembourg	Yes	Yes	Yes	x
Malta	Yes	Yes	Yes	x
Netherlands	Yes	Yes	Yes	x
Poland	Yes	Yes	Yes	x
Portugal	Yes	Yes	Yes	x
Romania	Yes	Yes	Yes	x
Slovakia	Yes	Yes	Yes	x
Slovenia	Yes	Yes	Yes	x
Spain	Yes	Yes	Yes	x
Sweden	Yes	Yes	Yes	x
OECD (Non-EU)				
Australia	Yes	Yes	Yes	x
Canada	Yes	x	Yes	x
Chile	Yes	x	Yes	x
Colombia	Yes	x	Yes	x
Costa Rica	x	x	x	x
Iceland	Yes	Pending	Yes	x
Israel	x	x	x	x
Japan	Yes	x	Yes	x
Korea	Yes	x	Yes	x
Mexico	Yes	x	Yes	x
New Zealand	Yes	x	Yes	x
Norway	Yes	Pending	Yes	x
Switzerland	Yes	x	Yes	x
Türkiye	Yes	x	Yes	x
United Kingdom	Yes	x	Yes	x
United States	Yes	x	Yes	x

Notes: The table reports country-by-country reporting (CbCR) obligations in force in each reference year, for EU Member States and non-EU OECD countries. Private denotes confidential CbCR filed with tax authorities under BEPS Action 13 (and, for EU Member States, Directive 2016/881); Public denotes publicly accessible CbCR, in the EU under the Public CbCR Directive (Directive (EU) 2021/2101). "Yes" indicates the obligation was in force; "x" that it was not; "Pending" that legislation was adopted or proposed but not yet in effect at the cut-off date.

4.2.2 Intended and Unintended Consequences

Early analytical work already framed CbCR as a transparency instrument with ambiguous welfare effects, highly sensitive to design and enforcement choices (Evers et al., 2014, 2016).

Existing empirical studies on mandatory public CbCR draw on two main settings: the EU's Capital Requirements Directive IV (CRD IV), which has mandated public CbCR for large EU banks since 2014, and event-study evidence on capital-market reactions to public CbCR initiatives.

Multiple empirical studies analyse the EU banking sector, where CRD IV required large banks to publish CbCR starting with the financial year 2014. Overesch and Wolff (2021) exploit this reform using a difference-in-differences design comparing banks newly exposed in tax-haven jurisdictions with several control groups in the financial and non-financial sectors. They find that affected banks increase their tax expenses relative to pre-reform levels and to control firms, with effects concentrated in banks that had previously undisclosed tax-haven operations. In line with their interpretation, the results are strongest where CbCR newly exposes tax-sheltering structures to public scrutiny. Joshi et al. (2020) conduct a related analysis, likewise focusing on EU banks but including a broader set of tax-planning measures. They conclude that public CbCR is associated with a reduction in tax-motivated income shifting, but they do not find consistent evidence of a change in consolidated effective tax rates (ETRs). Their research implies that public CbCR may constrain where profits are booked without necessarily reducing overall tax planning, at least in the short run.

While these studies on EU banks suggest that public CbCR reveals profit misalignment and tax-haven use, and can under certain conditions curb aggressive tax avoidance — especially when disclosures newly reveal tax-haven structures — it should be noted that these findings do not necessarily extend to the newly enacted public CbCR directive in Europe. All of these findings relate to a period prior to the implementation of other BEPS measures, including the ATAD directives, private CbCR, and the GMT. If all of these instruments have effectively

restricted profit shifting, as the empirical evidence reviewed in earlier sections suggests, then the incremental effect of public CbCR on profit shifting should be considerably smaller than suggested by the studies cited above.

A second strand of empirical studies investigates capital-market effects of public CbCR. Müller et al. (2024) take a novel approach based on the announcement of the EU-wide public CbCR directive. The authors document negative abnormal returns for firms expected to fall within the directive's scope, and stress that the reputational, compliance, and proprietary costs significantly outweigh any information benefits from an investor's perspective. Most importantly, they find that these effects differ only to some extent depending on the firms' ETR or tax-haven presence, underlining that public CbCR may carry important costs also for firms not heavily engaged in tax avoidance. One possible explanation is that public CbCR also reveals information about the profitability of business entities that may be competitors or business partners for purposes unrelated to tax enforcement (Dutt et al., 2021b).

A related early event study by Johannesen and Larsen (2016) examines the introduction of country-by-country tax-payment disclosure for European extractive-industry firms. Using four major legislative events from 2010–2013, they document significant negative cumulative abnormal returns of roughly 5–10 percent around the two key announcements that shifted expectations about the likelihood of adoption. The authors argue that compliance costs are far too small to explain these value losses and interpret the results as evidence that mandatory public disclosure reduces rents from tax evasion in the extractives sector. However, they provide no evidence that their findings are actually restricted to firms with such practices.

Other studies raise concerns regarding the quality of CbCR data, which further questions the usefulness of disclosing this information. Dutt et al. (2021a) document widespread heterogeneity in aggregation choices, missing variables, and inconsistent definitions, analysing the public CbCR obligation for European banks from 2014 onwards. While many banks closely follow regulatory templates, deviations — such as grouping multiple jurisdictions, omitting

data points, or reporting at a regional rather than country level — reduce comparability and limit the potential of public CbCR as a basis for robust econometric analysis. Similarly, Godar et al. (2024) find meaningful heterogeneity in the reporting of 35 MNEs that participate in voluntary public CbCR, concluding that tax risk indicators may be distorted by dividends and profits of equity-accounted entities. Koch and Oblinger (2025) find that a substantial share of the German MNEs in their survey indicated that only the introduction of the GMT has improved the quality of their CbC reporting — an ironic finding suggesting that the GMT, by requiring high-quality ETR calculations at the jurisdictional level, has inadvertently strengthened the underlying data that public CbCR was intended to generate.

Taken together, the evidence on public CbCR points to a mixed and sobering picture. The instrument can, under certain conditions, reduce aggressive tax avoidance, particularly where disclosure newly reveals tax-haven structures, but its effectiveness in reducing overall tax planning is limited, and its incremental contribution is likely to have diminished as other BEPS measures have taken effect. The capital market evidence consistently documents negative investor reactions that fall not only on firms with substantial tax-haven exposure but also on those with limited avoidance activity, suggesting that public disclosure imposes costs that extend well beyond their intended targets. Data quality concerns further undermine the instrument's stated transparency objectives. Murphy et al. (2019) go as far as describing the public CbCR directive for EU banks as a policy failure, attributing its shortcomings to a fundamental misunderstanding of cross-border accounting concepts in its design. These findings raise serious questions about whether the costs imposed by public CbCR — both on firms and on the functioning of the internal market — are proportionate to its demonstrated benefits (Dutt et al., 2021b), a question that the policy recommendations in section 5 seek to address.

5 Policy Recommendations

The Anti-Tax Avoidance Directive (ATAD I, 2016/1164) marked a turning point in the harmonization of EU tax policy. It established a comprehensive and largely coherent anti-avoidance framework that has substantially reduced opportunities for profit shifting within the European Union. Consistent with this objective, Koch and Scheider (2025) show that the profit-shifting component of effective tax rate reductions among large EU multinationals has declined markedly since 2018, amounting to only around 0.5–0.6 percentage points of the average effective tax rate. From the perspective of protecting Member States' tax bases, the post-2015 reform agenda has therefore been broadly successful.

The analysis in this paper nevertheless suggests that the policy debate has entered a new phase. While the anti-avoidance benefits of successive legislative initiatives have become increasingly incremental, the associated compliance costs, legal complexity and real economic distortions have accumulated across multiple layers of regulation. At the same time, important differences remain between the European Union and other OECD countries. Earnings stripping rules and CFC regimes outside the EU generally remain more narrowly targeted, while more recent instruments such as the Global Minimum Tax and public Country-by-Country Reporting have either not been implemented or have been implemented to a much more limited extent. Rather than establishing the globally level playing field envisaged by the OECD BEPS project, these asymmetries risk placing European multinationals at a competitive disadvantage.

These disadvantages arise through several channels. First, EU-based multinational enterprises continue to face stricter anti-avoidance constraints than many of their principal competitors, including firms headquartered in the United States, China and Switzerland (Koch and Scheider, 2025). Second, anti-avoidance legislation contributes substantially to tax complexity and compliance costs. Data from the Global Tax Complexity Survey show that anti-avoidance provisions consistently rank among the most complex elements of corporate tax systems (Hoppe et al., 2023), while recent studies associate higher tax complexity with greater

uncertainty regarding future tax outcomes (Giese et al., 2024) and lower firm values (Braun et al., 2025). Third, several instruments have been shown to generate unintended real effects. Earnings stripping rules reduce investment, innovation, corporate risk-taking and merger activity (De Simone et al., 2025; Fich et al., 2025), while public Country-by-Country Reporting may reveal commercially valuable information extending well beyond firms' tax positions (Dutt et al., 2021b).

These findings suggest that the next stage of EU anti-avoidance policy should focus less on expanding the regulatory framework and more on improving its coherence, proportionality and targeting. Interestingly, this appears increasingly consistent with the direction of current EU policy. While this article was being finalized, the European Commission presented its Tax Simplification Package, including a proposed Tax Omnibus Directive and a recast of the Directive on Administrative Cooperation. Although these proposals remain considerably more incremental than the recommendations developed below, they nevertheless recognize that reducing regulatory overlap, simplifying compliance obligations and strengthening competitiveness have become important objectives alongside the continued prevention of tax avoidance. The recommendations in this section should therefore be understood as an economic framework for identifying where such simplification is most justified.

The earnings stripping rule mandated by Article 4 ATAD should be reconsidered. As demonstrated in Section 3.1, its reference to total net borrowing costs extends the regulation well beyond its anti-avoidance objective by restricting the deductibility of genuine third-party financing alongside intragroup debt. Moreover, linking deductibility to current profitability makes the rule most restrictive precisely when firms are financially weakest, thereby discouraging risk-taking, investment and innovation (De Simone et al., 2025; Fich et al., 2025). We therefore recommend replacing the current earnings stripping rule with a thin-capitalisation rule – with a debt-to-equity instead of an interest-to-profit threshold – limited to intragroup debt. Such an approach would remain fully consistent with the anti-avoidance objective while

aligning EU legislation more closely with the design adopted in most non-EU OECD countries. At a minimum, the scope of the current rule should be narrowed to intragroup financing.

Notably, the Commission's Tax Omnibus proposal moves in this direction. By excluding certain categories of low-risk third-party borrowing from the earnings stripping rule and introducing measures intended to reduce its procyclical effects, the proposal implicitly recognizes the central economic concern identified in this paper: the principal costs of the current regime arise not from restricting tax-motivated intragroup financing, but from constraining commercially motivated external borrowing. The present analysis suggests that this process of better targeting could be taken further.

The relationship between CFC rules and the Global Minimum Tax should likewise be reconsidered. As Sections 3.2 and 4.1 demonstrate, both instruments pursue largely overlapping objectives by targeting low-taxed foreign passive or mobile income through effective-tax-rate-based mechanisms. Maintaining both regimes in parallel therefore generates duplicative compliance obligations while adding only limited incremental protection against profit shifting. Beyond compliance costs, Spengel et al. (2026) outline that the parallel operation of CFC rules and Pillar Two generates overlapping tax bases, recurring double-taxation scenarios, and costly reconciliations across divergent income-determination methods. We therefore recommend introducing a mandatory safe harbour exempting multinational groups within the scope of Pillar Two from CFC rules. For groups below the Pillar Two threshold, however, CFC rules continue to perform an important independent anti-avoidance function and should remain fully applicable.

Here again, the Commission's proposal points in the same direction. The introduction of Pillar Two-based carve-outs within the CFC regime acknowledges that the coexistence of both systems creates unnecessary overlap in at least part of their scope. While the proposed carve-outs are narrower than the exemption advocated here, they nevertheless reflect the same

underlying principle: where the Global Minimum Tax already neutralizes the incentive to shift profits to low-tax jurisdictions, duplicative CFC taxation should be avoided.

More generally, the Commission's Tax Omnibus proposal recognizes that simplification requires not only reducing overlap between legislative instruments but also reassessing whether individual anti-avoidance provisions continue to generate sufficient incremental benefits to justify their compliance costs. This is illustrated by the proposed repeal of the imported hybrid mismatch rule, which the Commission considers excessively complex relative to its practical contribution to combating tax avoidance. Although the present article does not separately evaluate that provision, the proposal exemplifies the broader analytical framework developed throughout this paper: anti-avoidance measures should remain subject to periodic reassessment as the international tax landscape evolves, and rules whose marginal costs exceed their incremental benefits should be reconsidered.

A related concern arises from the fragmented international implementation of Pillar Two itself. As documented in Section 4.1, the case for Pillar Two rested on the premise of genuinely global and uniform adoption: only if all major economies applied an equivalent minimum tax would the regime raise effective tax rates on low-taxed profit without distorting competition between multinational groups. That premise no longer holds. The United States has declined to implement Pillar Two, relying on a reformed GILTI regime that produces a de facto minimum tax of approximately 12.6–14 percent on a global blended rather than jurisdictional basis (Mengden, 2025) and that the June 2025 side-by-side agreement accommodates by exempting US-parented groups from the IIR and UTPR. As further economies opt for side-by-side treatment — Brazil has already requested it (Sholli, 2026), and China and India appear to be considering it — the binding reach of the regime contracts toward the European Union. The result is the opposite of the intended level playing field: European multinationals, under uniform EU-wide implementation, may bear higher effective tax rates (Koch et al., 2026) and substantial compliance costs (Bray et al., 2025), while many of their principal competitors could fall

outside its scope and the modest tax revenue involved is largely collected outside Europe (Section 4.1). The instrument therefore fails the cost-benefit standard applied throughout this article. We recommend that the European Union repeal its implementation of the Global Minimum Tax, consistent with Spengel et al. (2026), at least if further major economies effectively opt out of Pillar Two via the side-by-side agreement. At current levels of participating countries, this would not weaken protection against profit shifting: the ATAD (CFC rules, interest limitation, exit taxation, and hybrid mismatch provisions) would continue to apply in full.

If suspending the application of the Global Minimum Tax is politically unrealistic, the European Union should instead advocate within the OECD Inclusive Framework for a permanent simplified compliance safe harbour. Building such a regime around information already available through private Country-by-Country Reporting would substantially reduce compliance costs for the EU firms that remain within scope.

A similar cost-benefit assessment applies to public Country-by-Country Reporting. As discussed in Section 4.2, the available evidence that public disclosure reduces tax avoidance remains limited and largely confined to the banking sector before the implementation of the BEPS reforms. Any incremental anti-avoidance benefits are likely to be modest given the existence of private Country-by-Country Reporting, the Anti-Tax Avoidance Directives and the Global Minimum Tax. By contrast, the costs are increasingly well documented. Public disclosure affects firms well beyond those engaged in aggressive tax planning, generates negative capital-market reactions (Müller et al., 2024), may reveal commercially sensitive information to competitors and business partners (Dutt et al., 2021b), and continues to suffer from significant comparability and data quality concerns (Dutt et al., 2021a). Moreover, mandatory public Country-by-Country Reporting remains largely unique to the European Union, leaving European multinationals subject to transparency obligations that their global competitors generally do not face. We therefore recommend that the Commission reconsider

Directive 2021/2101 or, at a minimum, introduce a meaningful competitive-harm exemption allowing firms to withhold information whose disclosure would create disproportionate commercial disadvantages without corresponding tax enforcement benefits.

Taken together, these recommendations do not advocate a less robust anti-avoidance framework, but a better targeted one. Their common objective is to preserve those measures that continue to generate substantial anti-avoidance benefits while reducing unnecessary overlap, eliminating disproportionate compliance burdens and adapting the framework to developments such as the Global Minimum Tax. In this respect, the Commission's recent Tax Simplification Package is particularly noteworthy. Several of its central elements—including the narrowing of the earnings stripping rule, the introduction of Pillar Two carve-outs within the CFC regime, the repeal of the imported hybrid mismatch rule and the simplification of reporting obligations—move in the same direction as the recommendations developed in this article. Although the Commission adopts a more incremental approach, these proposals nevertheless suggest that EU tax policy has entered a new phase in which the challenge is no longer simply to strengthen anti-avoidance legislation, but to ensure that it remains proportionate, coherent and economically efficient.

Beyond these measures of recalibration and simplification, the European Commission should also return to the broader competitiveness agenda identified in the 2001 study *Company Taxation in the Internal Market* (European Commission, 2001). Many of the structural obstacles to cross-border business activity identified a quarter of a century ago remain unresolved. Unlike multinational groups headquartered in the United States or China, European firms continue to operate across up to twenty-seven separate corporate tax systems without effective cross-border loss relief. Progress toward a more harmonized corporate tax base, effective cross-border loss offset and the removal of remaining tax obstacles to the Internal Market would contribute more to strengthening the international competitiveness of European businesses than successive rounds of anti-avoidance tightening alone. Restoring this broader balance between protecting

tax bases and fostering growth would bring EU corporate tax policy closer to the Union's own objective of ensuring that taxation is not only fair, but also efficient. The Commission's Tax Simplification Package should therefore be understood not as a departure from the Union's anti-avoidance agenda, but as the beginning of its recalibration. Completing that recalibration by restoring the earlier market-integration agenda—including cross-border loss relief and further harmonization of the corporate tax base—would constitute the logical next step.

6 Conclusion

Over the past decade, the European Union has developed the world's most comprehensive supranational framework to combat corporate tax avoidance. This article has evaluated that framework against the Union's own objective of achieving a "fair and efficient" system of corporate taxation. The available empirical evidence suggests that successive anti-avoidance measures have reduced several forms of profit shifting and strengthened the protection of Member States' tax bases. At the same time, however, the cumulative expansion of the framework has generated increasing compliance costs, legal complexity and distortions to investment, financing and innovation. While the benefits of additional anti-avoidance measures appear to have become progressively smaller, their economic costs have accumulated across successive layers of legislation. As a consequence, the balance between effective tax enforcement and a competitive, growth-oriented corporate tax environment has become increasingly difficult to reconcile.

The analysis presented in this article does not suggest that the EU's anti-avoidance agenda should be abandoned. Rather, it indicates that the framework has reached a stage of maturity at which greater attention should be devoted to proportionality, regulatory coherence and the interaction between overlapping legislative instruments. Where several measures pursue similar objectives, or where newer instruments substantially reduce the incremental contribution of earlier ones, maintaining parallel obligations risks imposing unnecessary costs on businesses without generating commensurate additional protection against tax avoidance.

Against this background, the policy recommendations developed in this article advocate a recalibration rather than a dismantling of the existing framework. They argue for a more targeted earnings stripping rule focused on tax-motivated financing structures rather than genuine commercial borrowing, a reduction of unnecessary overlap between the Global Minimum Tax and the CFC regime for multinational groups already subject to Pillar Two, the elimination of anti-avoidance provisions whose compliance costs have become disproportionate to their remaining benefits, and a simplification of overlapping reporting obligations. Such reforms would preserve the effectiveness of the Union's anti-avoidance architecture while reducing unnecessary complexity and strengthening the competitiveness of European multinational enterprises.

The European Commission's publication of the 2026 Tax Simplification Package while this article was being finalized demonstrates that these questions have now moved to the centre of the EU tax policy debate. The proposed Tax Omnibus Directive and the recast of the Directive on Administrative Cooperation explicitly seek to reduce regulatory overlap, lower compliance costs and strengthen the competitiveness of the Internal Market while maintaining effective safeguards against tax avoidance. Although the Commission's proposals are considerably more incremental than the reforms advocated in this article, it is noteworthy that several of their central elements correspond closely to the recommendations developed here.

Most notably, the proposed exclusion of low-risk third-party borrowing from the earnings stripping rule directly addresses the concern that Article 4 ATAD extends beyond tax-motivated debt structures and unnecessarily constrains ordinary commercial financing. Likewise, the proposed Pillar Two carve-outs within the CFC regime acknowledge the growing overlap between controlled foreign company rules and the Global Minimum Tax, thereby reducing the duplication identified in this article. The proposed repeal of the imported hybrid mismatch rule reflects the same underlying principle that anti-avoidance provisions whose compliance costs have become disproportionate to their incremental benefits should be

reconsidered. Finally, the substantial simplification of reporting obligations under the DAC recast and related measures recognizes the cumulative compliance burden created by successive transparency initiatives. Taken together, these proposals suggest that the Commission itself has begun to move toward a more targeted and proportionate anti-avoidance framework, one that increasingly distinguishes between measures that continue to generate meaningful anti-avoidance benefits and those whose primary effect has become the creation of additional complexity.

The Commission's proposals do not, however, provide a comprehensive economic assessment of where simplification is most warranted. Their approach remains largely incremental, refining individual instruments while leaving the broader architecture of the post-2015 anti-avoidance framework intact. The contribution of this article is therefore complementary. Rather than identifying isolated opportunities for simplification, it develops an integrated economic framework for evaluating the cumulative effects of the EU's anti-avoidance legislation and for identifying those areas where the marginal costs of regulation have come to outweigh their incremental anti-avoidance benefits.

More broadly, the recent shift in the policy debate suggests that the evolution of EU corporate taxation has entered a new phase. Following a decade characterized primarily by the rapid expansion of anti-avoidance legislation, increasing attention is now being devoted to regulatory quality, competitiveness and administrative efficiency. Whether the Union ultimately succeeds in restoring the balance between these objectives will depend not only on simplifying existing legislation but also on subjecting both existing and future anti-avoidance measures to systematic evaluation of their intended effects and their broader economic consequences. Such an evidence-based approach would better reflect the Union's own aspiration to ensure that corporate taxation is not merely fair, but also efficient.

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